



### Written Testimony on Assembly Bill 749

Mark Rickenbach

Assembly Forestry Committee

17 February 2010

Thank you for the opportunity to provide testimony to the Committee. For the record, I am an Associate Professor and Extension Specialist in the Department of Forest & Wildlife at the UW-Madison. Of the three bills under consideration by the Committee today, I would like to provide informational testimony on Assembly Bills 749. My comments focus on the implications of this bill on the logging sector and reflect my knowledge and interest in this sector based on nearly 10 years of research and extension related to it and private forestry more generally.

AB749 would create...

*creates an income and franchise tax credit in an amount equal to 10 percent of the amount that a taxpayer pays in a taxable year for equipment used exclusively to harvest or process woody biomass that is used as fuel or as a component of fuel. If the credit amount exceeds the amount of the taxpayer's tax liability, the taxpayer will receive a refund.<sup>i</sup>*

As I understand it, the purpose of this bill is to encourage investments by logging firms, mills, start-ups, and others that use woody biomass to produce energy. I have four specific comments for your consideration.

1. Any assistance is likely welcome, if it allows logging firms to capture new opportunities associated with bio-energy. As many of you know, logging has becoming a capital-intensive enterprise. In 2004, we found that the typical logging firm in the region was very small (i.e., mainly owner-operator, no employees), but carried debt totaling approximately \$300,000.<sup>ii</sup> Tax credits that reduce capital needs might allow for new investments. In addition, such investments could indirectly benefit landowners and mills, through increased overall capacity within the logging sector.
2. However, the exclusivity requirement proposed in AB749 would likely make most existing logging firms ineligible for this credit. Logging firms rarely focus on harvesting a single product per sale. Timber sales reflect the forests of Wisconsin—multi-age and sized trees—and yield varied products (e.g., sawlogs, poles, posts, pulp, etc). It is conceivable that firms could add logging equipment that is specialized toward harvesting wood specifically for energy markets. At one extreme is a "slash bundler" (Figure 1), which has yet to demonstrate financial viability.<sup>iii</sup> At the other extreme

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would be firewood splitters, which could allow logging firm to capture new market niches. Less specialized equipment could be added (e.g., chippers), but it is unlikely that the resulting materials would be exclusively sold into energy markets, particularly in locations with existing pulp markets.

3. In terms of new opportunities, AB749 would likely apply to equipment purchased to create short rotation, intensively managed plantations (e.g., hybrid poplar) that often figure into energy markets. In these situations, the tax credit could foster investment that could shift marginal agricultural lands into production.
4. One aspect of any tax credit is that it presumes the ability to invest. Based on informal conversation with others familiar with the logging sector and our past research, ready capital and access to credit markets are likely impediments for most logging firms. If this is indeed true, other mechanisms, such as low-interest loans, may be more effective at fostering investment.



Figure 1. John Deere 1490D Energy Wood Harvester (source: John Deere website)

In summary, the state has an interest in the emerging opportunities associated with the wood-based bio-economy given the importance of the resource to the state. Although logging firms will play a critical role in moving fiber to "energy mills," AB749 is unlikely to apply to most logging firms due to the exclusivity requirement. This may be appropriate, as innovation and investment are needed to create potential energy wood buyers, before loggers can (perhaps) depend on and specialize around those buyers. An exception, though, would be new "agroforestry" techniques (e.g., short rotation, energy wood plantations) that are not typical in Wisconsin.

In closing, I appreciate the opportunity to testify on this bill and the willingness of the Committee and the Legislature to actively support investment in the logging sector. I hope that my comments aid in your decision-making process. I would be happy to answer questions or discuss my comments further.

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<sup>i</sup> Analysis by the Legislative Reference Bureau as part of AB749

<sup>ii</sup> Rickenbach, Steele, & Schira. 2005. Status of the logging sector in Wisconsin and Michigan's Upper Peninsula. University of Wisconsin-Madison/Extension Department of Forest Ecology and Management publication. 39 pp.

<sup>iii</sup> Personal communication with Dr Thomas Steele, Forest Economist and Station Director, UW-Madison Kemp Natural Resources Station



## State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

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### Testimony for Public Hearing – Assembly Committee on Forestry February 17, 2010

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#### Assembly Bill -749

Relating to: an income and franchise tax credit for equipment used to harvest or process biomass. Introduced by Representatives Clark, Friske, Milroy, Zigmunt, Radcliffe, Molepske Jr., Hraychuck, Smith, Soletski, Hilgenberg, Hixson, Fields, Sinicki, Mursau, Townsend, Meyer, Petrowski, Suder, M. Williams, Ballweg and Nerison; cosponsored by Senators Holperin, Kreitlow, Taylor and A. Lasee.

The DNR supports the concept of Assembly Bill 749.

We would recommend that consideration be given to raising the limit of 5% for other use in section 5 line 24 to not more than 50%, or at least 25% allowing for more flexibility in the use of this equipment. As written the benefits would primarily go to the large logging firms that have size of operations that can use dedicated biomass machinery. The majority of the logging companies in Wisconsin are small operations that would have trouble justifying a machine that could only be used for biomass. This flexibility in use will allow more loggers to take advantage of this and increase the availability of biomass from small logging jobs. This will increase total biomass availability.



February 15, 2010

Assembly Committee on Forestry  
Rep. Fred Clark, Chair

Mr. Chairman and Committee Members,

The Great Lakes Timber Professionals Association (GLTPA) would like offer testimony in favor of LBR 4521/1.

As we all know most industry in the state of Wisconsin is suffering from the current economic downturn. This bill offers some incentive to one of the bright spots in our current economy which is the harvesting and particularly the use of bio mass for energy and fuel which can lower or dependency on foreign oil. It should be the goal of all citizens to use our resources in a sustainable manner and this bill would help to ensure that we achieve that goal through tax incentives to promote such use.

All though there are many discussions being held to expand the use of biomass, members of GLTPA are very cautious about expanding their forestry business's at this time. Current production capabilities far exceed the market demand and the cost of production is not favorable for a profitable business. The equipment used to produce and transport biomass material as well as the equipment used to support the chipping and grinding operations is very expensive costing several hundreds of thousands of dollars. We sincerely appreciate the intention of this bill to create a tax incentive for the purchase of biomass harvesting equipment, but we strongly feel the markets to receive the biomass material must first be expanded and must be a priority before the equipment is purchased.

In closing it is our opinion that biomass business's through tax bills such as LBR 4521/1 can be expanded and created with long term goals in mind such as well paying jobs and dependable markets to receive biomass material.

We thank the committee for recognizing the need for legislation to get the economy back on track and look forward to working with you in any capacity needed as we move forward.

Sincerely,

A handwritten signature in cursive script, reading "Henry Schienebeck". To the right of the signature is a solid black rectangular redaction mark.

Henry Schienebeck  
Executive Director  
Great Lakes Timber Professionals Association.



# FRED CLARK

Serving Adams, Columbia, Marquette & Sauk Counties

STATE REPRESENTATIVE ♦ 42ND ASSEMBLY DISTRICT

## Public Hearing

Committee on Forestry

Wednesday, February 17, 2010

1:00pm, Rm. 415 NW

## Testimony – AB 749

### *Biomass Harvesting Equipment Tax Credit*

Just like the business expansion tax credits passed in the state stimulus package for dairy and meat processor facilities, the biomass harvesting equipment tax credit can help promote modernization in Wisconsin's second leading industry, forestry.

Rising energy costs, federal tax incentives for biomass heating systems and high-efficiency heating system technologies have driven more and more consumers and businesses to using woody biomass. Offering tax incentives to companies to invest in new biomass harvesting equipment will create new jobs and help bolster our state's forest industry. New equipment needs new operators, and this legislation will encourage companies to invest not only in equipment but also in the state's workforce.

Residential and commercial biomass heating systems are becoming increasingly more popular in Wisconsin and across the nation. Beginning in 2008, the Federal government began offering great incentives for consumers to purchase high-efficiency biomass stoves. Given our states' climate and strong forestry industry, Wisconsin is the ideal market for biomass heating systems.

The Biomass Harvesting Equipment Tax Credits provide:

- A 10% franchise tax credit (up to \$100,000 income) on the purchase of approved biomass harvesting equipment.
- Total tax credits of \$900,000, are available to claimants after December 31<sup>st</sup>, 2008 and before January 1<sup>st</sup>, 2015.
- Tax credits would apply only toward equipment used exclusively for biomass harvesting or processing.
- Department of Commerce would implement a program for determining eligibility of applicants.

As many of you know Forestry is thriving in Wisconsin, our forests grow more and more each year. Of every 1,000 live trees over ten feet tall in Wisconsin this year, 80 will die from severe weather, insect damage, crowding, disease or old age. Only 4 of the thousand will be harvested by loggers. However, 98 new trees will grow past the ten foot mark during the year. Therefore, in Wisconsin, annual wood growth exceeds harvest capabilities for most species. Wisconsin is roughly 34.7 million acres in size and of those 34.7 million acres we have over 16 million acres of forest land.

As you can see, Wisconsin has an overabundance of raw forest products, but we import roughly 12 billion dollars of energy each year. In an attempt to become more energy independent, Wisconsin has been using an increasing number of co-firing facilities. Co-firing energy facilities burn different types of biomass and coal together which cut Wisconsin's demand for out-of-state coal and promote state industries.

Wood fiber pellets are a great alternative energy source. Pellet manufacturing need increased significantly and was projected to double in a few years after the spike of energy costs last year. Energy will continue to rise and investing in Wisconsin's biomass harvesting capabilities is the right move for Wisconsin to edge toward energy independence while supporting a 20 billion dollar industry.